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MECHANISMS PURSUANT TO ARTICLES 6, 12 AND 17 OF THE KYOTO PROTOCOL

Text by the chairmen

Addendum

ARTICLE 12 OF THE KYOTO PROTOCOL

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[Draft decision [B/CP.6]: Modalities and procedures for a clean development mechanism as defined in Article 12 of the Kyoto Protocol

The Conference of the Parties,

Recalling that in Article 12 of the Kyoto Protocol a clean development mechanism is defined with the purpose to assist Parties not included in Annex I to the Convention in achieving sustainable development and in contributing to the ultimate objective of the Convention, and to assist Parties included in Annex I in achieving compliance with part of their quantified emission limitation and reduction commitments under Article 3 [and reflecting provisions contained in appendix X to the annex on modalities and procedures to decision [...]],

Recalling its decision 1/CP.3, in particular paragraph 5 (e),

Recalling also its decision 7/CP.4 on a work programme on mechanisms to be undertaken with priority given to the clean development mechanism, and with a view to taking decisions on all the mechanisms under Articles 6, 12 and 17 of the Kyoto Protocol at its sixth session, including, where appropriate, recommendations to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its first session,

Recalling also its decisions 8/CP.4 and 14/CP.5,

Bearing in mind the need to promote equitable geographic distribution of the clean development mechanism project activities at regional and sub-regional level,

Emphasizing the importance of reliable, transparent baselines for assessing the additionality of project activities in accordance with paragraph 5 (e) of Article 12 of the Kyoto Protocol,

Recognizing the need for methodological guidance to project participants and designated operational entities,

Emphasizing that Parties should use technologies in a way that minimizes any adverse environmental and social effects,

Option A (para.1):

1. [[*Decides* [to establish][the prompt start of] the clean development mechanism [on an interim basis, in observance of Article 12, paragraph 10 of the Kyoto Protocol and] in accordance with decision [...] and the annex on modalities and procedures. The Conference of the Parties shall assume the responsibilities of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol related to the clean development mechanism until the latter's first session. An [interim] executive board shall meet for the first time by [DD/MM/YYYY]];

Option B (paras. 2 to 5):

2. *Decides* to establish an executive board to facilitate a prompt start of the clean development mechanism;

3. *Decides* that the executive board referred to in paragraph 2, and any operational entities accredited by [that executive board][the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol], shall operate in the same manner as the executive board and designated operational entities of the clean development mechanism as set out in the annex on modalities and procedures and that the executive board shall convene its first meeting by [DD/MM/YYYY];

4. *Decides* that for the purposes of this decision, the Conference of the Parties shall assume the responsibilities of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol as set out in the annex on modalities and procedures;

5. *Decides* that this decision shall be effective immediately upon adoption and remain in effect until the decision referred to in paragraph 21 of this decision is adopted by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;

6. *Urges* the Parties included in Annex I to the Convention concerned to start implementing measures to assist Parties not included in Annex I to the Convention, in particular the least developed and small island developing States amongst them, with building capacity in order to facilitate their participation in the clean development mechanism, taking into account relevant decisions on capacity-building by the Conference of the Parties and the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol as well as decisions on guidance to the financial mechanism of the Convention;

7. *Establishes* a specific mechanism, to be facilitated, as appropriate, by the executive board, to assist Parties not included in Annex I to the Convention, in particular the least developed and small island developing States amongst them, with building capacity to participate in the clean development mechanism;

8. [*Decides* to adopt a[n initial] positive list of safe and environmentally sound eligible projects, based on the following categories:

(a) Renewable energy: solar energy, wind energy, sustainable biomass, geothermal heat and power, small-scale hydropower, wave and tidal power, ambient heat, ocean thermal energy conversion, activities to promote anaerobic respiration, and energy recovery from biogas, including landfill gas;

(b) Energy efficiency: advanced technologies for combined heat and power installations and gas-fired power plants; [significant] improvements in existing energy production; advanced technologies for, and/or [significant] improvements in, industrial processes, buildings, energy transmission, transportation and distribution; more efficient and less polluting modes of mass and public transport (passenger and goods) and improvement or substitution of existing vehicles, and existing fuel sources;

(c) Demand-side management: improvements in residential, commercial, transport and industrial energy consumption.]

9. [*Recommends* that the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, at its first session after the entry into force of the Kyoto Protocol, review the positive list set out in paragraph 8 above, based on the experience with the [initial] positive list.]

10. [*Invites* the [Intergovernmental Panel on Climate Change][Subsidiary Body for Scientific and Technological Advice][executive board] to prepare guidelines for baseline setting under the guidance of the executive board, taking into account:

(a) All baseline-related sections of the annex on modalities and procedures for a clean development mechanism;

(b) All baseline methodologies as approved [in the interim phase of the clean development mechanism] by the [interim] executive board;

(c) Provisions contained in the annex on terms of reference for the establishment of guidelines on baselines;]

11. [*Requests* the Subsidiary Body for Scientific and Technological Advice to adopt the guidelines for baseline setting and accreditation procedures at its [sixteenth][xth] session;]

12. [*Requests* the executive board to include the guidelines adopted under paragraph 11 in the UNFCCC clean development mechanism reference manual;]

13. *Decides* that the adaptation fund shall be managed by [United Nations Development Programme][secretariat][the entity entrusted with the operation of the financial mechanism];

14. [*Decides* to review regularly the equitable regional and subregional distribution of clean development mechanism project activities with a view to [ensuring][promoting] equitable distribution and provide appropriate guidance to the executive board accordingly.]

15. [*Decides* to establish a clean development mechanism equitable distribution fund to provide financial assistance to project activities where this is necessary to address imbalances in the regional distribution of clean development mechanism project activities. The fund shall be managed by [X]. The fund shall be financed by Parties included in Annex II in accordance with [a formula to be determined by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol][the formula set forth in appendix __]. Certified emission reductions generated by clean development mechanism project activities financed by this fund shall be distributed to Parties included in Annex II in proportion to their contribution. Parties not included in Annex I may, individually or jointly, propose clean development mechanism projects to the clean development mechanism equitable distribution fund. The executive board shall allocate funds, including grants, to projects in accordance with criteria, taking into account the geographic distribution of existing and planned clean development mechanism projects, the comparative needs of regions or countries for assistance in achieving sustainable development, and the contribution of the proposed project to the limitation and reduction of greenhouse gas emissions, as established by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol. Allocated funds need not necessarily offset the full cost of a clean development mechanism project.]];

16. [*Elects* the members of the [interim] executive board listed in the relevant annex to this decision, nominated in accordance with the modalities and procedures;]

17. *Requests* [the secretariat of the Convention] to perform any functions assigned to it in decision [...] and respective annexes[1];

18. *Decides* that the share of proceeds shall be collected and allocated, in accordance with provisions contained in appendix D, to cover administrative expenses and to the adaptation fund[2] defined in appendix E to the annex to this decision;

19. *Invites* Parties to contribute to the trust fund established to cover the administrative expenses of the [interim] executive board. Such contributions shall be reimbursed, if requested, from the share of proceeds collected for administrative expenses in accordance with disbursement procedures and the timetable determined by the executive board;

20. *Decides* to examine the [prompt start][facilitation of the establishment][interim operation] of the clean development mechanism not later than [x][5] years from the adoption of this decision and take any necessary action [by consensus]. Any revision shall not affect clean development mechanism project activities already registered;

21. *Recommends* that the Conference of the Parties serving as the meeting of the Parties to the Protocol, at its first session, adopt the following decision:

Decision -/[CMP.1]

Modalities and procedures for a clean development mechanism as defined in Article 12 of the Kyoto Protocol

The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol,

Taking into account provisions contained in Articles 3 and 12 of the Kyoto Protocol,

Bearing in mind that, in accordance with Article 12, the purpose of the clean development mechanism is to assist Parties not included in Annex I to the Convention in achieving sustainable development and in contributing to the ultimate objective of the Convention, and to assist Parties included in Annex I in achieving compliance with part of their quantified emission limitation and reduction commitments under Article 3 [and reflecting provisions contained in appendix X to the annex on modalities and procedures],

Recognizing that each certified project activity must involve the participation both of a Party included in Annex I and a Party not included in Annex I for achieving the purpose of the clean development mechanism,

---

[1] The resource implications of the [prompt start] [establishment] of the clean development mechanism [on an interim basis] need to be specified.

[2] [An adaptation fund shall be established to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change, in particular the least developed countries and small island developing States amongst them, and/or to the impact of the implementation of response measures, under Articles 6 and 17, to meet the costs of adaptation.]

Acknowledging that the participation of Parties not included in Annex I in certified project activities for the purpose of sustainable development makes the clean development mechanism distinctive from the other mechanisms,

[*Also bearing in mind* the provisions contained in Articles 3 and 12 of the Kyoto Protocol, in accordance with which any certified emission reductions which a Party acquires from another Party not included in Annex I shall be added to the assigned amount of the acquiring Party[, keeping in view that any such acquisitions are only for the purpose of contributing to the achievement of compliance with the quantified emission limitation and reduction commitments in Article 3 of the acquiring Party without altering that Party's assigned amount pursuant to its quantified emission limitation and reduction commitments inscribed in Annex B.]]

Bearing in mind further that a share of the proceeds from certified project activities under the clean development mechanism shall be used to cover administrative expenses and to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation,

[[*Affirming* that, in their actions to achieve the purpose of the clean development mechanism, Parties shall be guided by Articles 2 and 3 of the Convention and, *inter alia*,

[Equity between developed and developing countries relates to equitable per capita emission entitlements for developing country Parties, keeping in view that per capita emissions in developing countries are still relatively low and that the share of global emissions originating in developing countries will grow to meet their social and development needs, taking fully into account that economic and social development and poverty eradication are the first and overriding priorities of such Parties, while affirming that developed country Parties shall continue to limit and reduce their emissions with the aim of attaining lower levels of emissions through domestic policies and measures with a view to reducing per capita inequities in emissions between developed and developing country Parties.]

[Additionality: Reductions in anthropogenic emissions by sources [and anthropogenic enhancement of removals by sinks] should be additional to any that would occur in the absence of the project activity, in accordance with Article 12, paragraph 5 (c). [Public funding for [the acquisition of CERs resulting from] CDM project activities from Parties included in Annex I shall be additional to the financial obligations [in Articles 4, paragraph 3, and 11 of the Convention] of Parties included in Annex II to the Convention within the framework of the financial mechanism as well as to current official development assistance [flows][targets]. [Commercially viable business-as-usual projects should not be eligible as clean development mechanism projects;]]

[Non-discrimination, prevention of distortion of competition: All developing country Parties may participate in or initiate clean development mechanism project activities on a voluntary basis. No unilateral measures should preclude a Party not included in Annex I from participating in or initiating any clean development mechanism project activity. Clean

development mechanism project activities should not distort competitiveness in the market of the host Party;]

[Special needs of least developed country Parties: Activities under the clean development mechanism should give full consideration to the special needs of least developed countries, in particular to the identification of their special technology needs and to capacity-building;]

[Special vulnerabilities and character of small island developing States: Activities under the clean development mechanism should take into account the special vulnerabilities and character of small island developing States, in particular capacity-building for adaptation activities and the implementation of clean development mechanism project activities;]

[Transferability: Once issued, certified emissions reductions [may][shall][not] be transferred to another Party or entity;]

[Fungibility/non-fungibility: Parties [may][shall][not] exchange emission reduction units[, certified emission reductions] and [assigned amount units][parts of assigned amount] [in accordance with rules and procedures established by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol which are to ensure their effective environmental equivalence];]

Having considered decision [B/CP.6] on modalities and procedures for the clean development mechanism,

1. *Decides* to confirm and give full effect to any actions taken pursuant to decision [B/CP.6];

2. *Adopts* the modalities and procedures for the clean development mechanism contained in the annex on modalities and procedures;

3. *Decides* that possible future revisions of [this decision] [and the annex on modalities and procedures] may be considered, taking into account the experience of Parties. Revisions shall not affect clean development mechanism project activities already registered. [Any revisions to this decision shall be made by consensus of the Parties]. The first such revision shall be undertaken not less than [five][x] years after the adoption of the clean development mechanism modalities and procedures by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its first session.

Annex

MODALITIES AND PROCEDURES FOR A CLEAN DEVELOPMENT MECHANISM

[Definitions

For the purpose of this annex:

(a) "Protocol" means the Kyoto Protocol to the United Nations Framework Convention on Climate Change, as adopted on 11 December 1997.

(b) "Party" means, unless the context otherwise indicates, a Party to this Protocol.

(c) "Party included in Annex I" means a Party included in Annex I to the Convention, as may be amended, or a Party which has made a notification under Article 4, paragraph 2(g) of the Convention, and is a Party to the Kyoto Protocol.

(d) "Party not included in Annex I" means a Party not included in Annex I to the Convention, as may be amended, and which has not made a notification under Article 4, paragraph 2(g) of the Convention, and is a Party to the Kyoto Protocol.

(e) "Article" means an article of the Protocol, unless otherwise indicated.

(f) ["Assigned amount units" or "AAUs"] ["Parts of assigned amount" or "PAAs] are [serialized parts of the assigned amount of a Party included in Annex B] [units calculated pursuant to Article 3, paragraphs [3, 4,] 7 and 8].

(g) "Emissions reduction units" or "ERUs" are units [issued] [transferred] pursuant to Article 6 and requirements thereunder;

(h) "Certified emissions reductions" or "CERs" are units issued pursuant to Article 12 and requirements thereunder;

(i) [AAUs][PAAs], ERUs and CERs are units each equal to one tonne of carbon dioxide equivalent, calculated using global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5;

(j) ["Assigned amount" includes [AAUs][PAAs], CERs and ERUs.]

(k) "Stakeholders" means the public affected by or likely to be affected by or having an interest in the project.]

A. Role of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol

1. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (COP/MOP) shall have authority over and provide guidance to the clean development mechanism (CDM) and shall:

(a) Consider annual reports of the executive board and provide necessary guidance to the executive board [regarding [the implementation of the decisions of the COP/MOP on] issues such as project eligibility, criteria for additionality, methodologies for determining baselines; guidelines for monitoring, verification, certification, accreditation and reporting; and the reporting format];

(b) [Define the functions of the executive board of the CDM];

(c) [Approve rules of procedure for the executive board, including for the preparation and distribution of the provisional agenda of executive board meetings and for presentations to be made to the executive board by Parties and accredited observers [set forth in appendix ...];

(d) Option 1: Receive a list of the operational entities designated by the [accreditation body].

Option 2: Designate a list of operational entities recommended by the [accreditation body].

(e) Assist in arranging funding of clean development mechanism project activities as necessary;

2. Option 1: The COP/MOP [may][shall] consider appeals against decisions taken by the executive board upon request of [x] Parties, CDM project activity participants or on its own initiative. The rules and procedures governing appeals of executive board decisions[, including guidelines concerning the respective roles of the Subsidiary Body for Implementation (SBI) and the Subsidiary Body for Scientific and Technological Advice (SBSTA) in those proceedings,] are set forth in appendix ---. The COP/MOP may modify or overrule any decision or other action of the executive board. The COP/MOP shall make a final decision within [x] sessions.

Option 2: [The COP/MOP shall consider and decide upon any matter which a Party may refer to it related to a decision of the executive board in accordance with the rules which may be formulated for such purpose.]

(Note: Under the COP/MOP rules of procedure, a Party may propose an item, including an appeal against an executive board decision, for the COP/MOP agenda. No text may therefore be required.)

B. Executive board

3. The executive board shall:

(a) Supervise the CDM, subject to the authority and guidance of the COP/MOP, to ensure that CDM project activities are in conformity with the Convention, the Protocol and all relevant decisions of the COP/MOP;

(b) Be responsible for carrying out functions ascribed to it in decision [...], the annex on modalities and procedures and relevant decisions of the COP/MOP and be fully accountable to the COP/MOP;

(c) Report to each session of the COP/MOP on its activities and make recommendations for consideration by the COP/MOP, as appropriate, on modalities and procedures, including its own rules of procedure;

(d) Address, through an independent review procedure, substantiated written concerns and objections which it believes have merit [raised by Parties [or UNFCCC accredited observers]] relating to the observance of modalities and procedures of the CDM [in the context of decisions made by the executive board or designated operational entities] and take appropriate action;

(e) Be the [accreditation body] for operational entities;

(f) [Maintain and make available the UNFCCC CDM reference manual;]

(g) [Approve] [Make recommendations to the [COP/MOP][SBSTA and SBI] on] new [threshold], baseline[, sink crediting] and monitoring methodologies, based on a request by a host Party for application in its territory, or a designated operational entity or the executive board's own work;

(h) [Develop guidance][Make recommendations to the COP/MOP], as necessary, relating to accounting for changes in anthropogenic emissions by sources [and anthropogenic enhancements of removals by sinks] that are significant and reasonably attributable to a project activity but outside the geographic area of the reference scenario to be used in the calculation of CERs;

(i) Develop and maintain a registry of CDM project activities and perform registry functions as defined in [...];

(j) [Publish relevant information on proposed CDM project activities in need of funding and on investors seeking opportunities in order to assist in arranging funding of CDM project activities, as necessary;]

(k) Review the regional and subregional distribution of CDM projects, report to the COP/MOP and propose to the COP/MOP initiatives aimed at promoting CDM investments in Parties that are often marginalized by purely market-based instruments;

(l) Make publicly available all relevant, non-confidential information, in accordance with subparagraph (m) below and provisions contained in decision [...], the annex on modalities and procedures and relevant decisions by COP/MOP [on CDM project activities, including that

contained in registered project design documents, comments received, verification reports, its decisions and all CERs issued];

(m) Not disclose, except as required by COP/MOP decisions or by [national] law, information obtained from CDM project participants marked as proprietary or confidential, where such information is not otherwise publicly available, without the written consent of the provider of the information. [The environmental impact assessment and] information used to determine emissions additionality shall not be considered [commercially] confidential or proprietary.

4. The executive board shall comprise ...

- Option 1: [eight][x] members chosen from among Parties included in Annex I, and [eight][x] members chosen from among Parties not included in Annex I [including one member to represent the small island developing States, taking into account the interest groups as reflected by the current practice in the bureau of the Conference of the Parties (COP)].

- Option 2: [three][x] persons proposed by Parties from each of the five United Nations regional groups, [on a rotational basis] [including one member to represent the small island developing States, taking into account the interest groups as reflected by the current practice in the COP bureau].

5. Members of the executive board shall be nominated by Parties included [and Parties not included in Annex I, respectively] [in each of the five United Nations regional groups] and be elected by [the COP/MOP]. Vacancies shall be filled in the same way. Temporary members appointed by the executive board shall be elected by the COP/MOP.

6. Members shall be appointed for a period of two years and be eligible to serve a maximum of two [consecutive] terms. [y] [Half of the] members nominated initially by each group shall serve for a period of [one][three] year[s]. The members shall remain in office until their successors are elected.

7. Members should possess recognized appropriate technical and/or policy expertise [and shall act in their personal capacity].

8. Members shall have no interest, financial or other, in any CDM project activity submitted to the executive board for the purpose of registration or for any other purpose.

9. Members shall have no interest, financial or other, in any issuance of CERs by the executive board.

10. Subject to their responsibilities to the executive board, members shall not disclose any confidential information coming to their knowledge by reason of their duties for the executive board.

11. The duty of the member not to disclose confidential information constitutes an obligation in respect of that member and shall remain an obligation after the expiration or termination of that member's function for tne executive board.

12. Before assuming his or her duties, each member shall make a written declaration witnessed by the Secretary-General of the United Nations or his/her authorized representative:

13. The executive board may [decide][suspend and recommend to the COP/MOP] to terminate the membership of a particular member for cause on any of the following grounds:

(a) Breach of the conflict of interest provisions;

(b) Breach of the confidentiality provisions;

(c) Failure to attend [x][two] consecutive meetings of the executive board;

(d) [Other reasons as the executive board deems appropriate].

14. [The executive board shall make all reasonable attempts to fill any vacancies on the executive board arising pursuant to paragraph 13 above, taking into account views expressed by the group that had nominated the member, bearing in mind the proximity of the next session of the COP/MOP.]

15. The executive board shall elect its own chair and vice-chair, with one being a member from a Party included in Annex I and the other being a member from a Party not included in Annex I. The chair and vice-chair shall alternate annually between members from Parties included and Parties not included in Annex I, respectively.

16. The executive board shall meet as necessary but no less than three times a year.

17. At least two thirds of the members of the executive board [, representing a majority of members from Parties included in Annex I and a majority of members from Parties not included in Annex I,] must be present to constitute a quorum.

18. Decisions by the executive board shall be taken by consensus[, whenever possible. If all efforts at reaching a consensus have been exhausted, and no agreement reached, decisions shall be taken by a two-thirds majority of the members present and voting at the meeting [, representing a majority of members from Parties included in Annex I and a majority of members from Parties not included in Annex I]. Members abstaining from voting shall be considered as not voting.]

19. [Meetings of the executive board shall be open to attendance, as observers, [by all Parties and] by all UNFCCC accredited non-governmental organizations (NGOs) in accordance with, and except where prohibited by, its rules of procedure.]

20. The full text of all decisions of the executive board shall be kept by the secretariat, communicated to each Party and made publicly available. The working language of the executive board shall be English. Decisions shall be made available in all six official languages of the United Nations.

21. The executive board shall, as appropriate, make arrangements for the administrative support necessary for its activities, under the guidance of the COP/MOP.

22. The executive board may establish committees, panels or working groups to assist in the performance of its functions as well as draw on outside expertise for advice on technical and

methodological matters, as appropriate. In this context, it shall take into account the consideration of regional balance, subject to compliance with the rules concerning avoidance of conflict of interest.

[C. [Accreditation body]

(Note: See also paragraph 3(e) above in which the executive board is foreseen to assume the functions of the accreditation body.)

23. Option 1: Accreditation by the [accreditation body] shall constitute the designation of operational entities by the COP/MOP as stipulated in Article 12.5. The [accreditation body] shall submit annually to the COP/MOP the list of designated operational entities that meet the accreditation standards contained in appendix A. The [accreditation body] shall maintain a publicly available list of all designated operational entities.

Option 2: The [accreditation body] shall submit to the COP/MOP the list of accredited entities that meet the accreditation standards contained in appendix A for designation as operational entities in accordance with Article 12.5. The [accreditation body] shall maintain a publicly available list of all designated operational entities.

24. At regular intervals not exceeding one year, as well as through spot-checking at any time, the [accreditation body] shall review whether each designated operational entity continues to comply with the accreditation standards contained in appendix A.

25. The [accreditation body] may [recommend to the COP/MOP to] [, on a provisional basis, until final approval by COP/MOP,] suspend or withdraw the designation of an operational entity if it finds that the entity no longer meets the accreditation standards or applicable decisions of the COP/MOP. The [accreditation body] shall immediately notify the affected designated operational entity and the COP/MOP of such action. Any decision taken by the [accreditation body] to [recommend the suspension or withdrawal of][withdraw] designation shall be taken only after the designated operational entity has had the possibility of a hearing. The decision on such a case shall be made public.

26. Option 1: [Registered project activities shall not be affected by the suspension or withdrawal of designation unless deficiencies identified in the validation report, verification report or certification for the project activity constitute the reason for the suspension or withdrawal of the designation.] If deficiencies in a validation report, verification report or certification for a project activity constitute a reason for the suspension or withdrawal of the designation of a designated operational entity, the executive board shall decide on consequences regarding the registration of the project activity or the validity of CERs issued. Any such decision that adversely affects registered project activities shall be taken only after the affected project participants have had the possibility of a hearing.]

Option 2: [If deficiencies in a verification report or certification for a CDM project activity constitute a reason for the suspension or withdrawal of the designation of a designated operational entity, the designated operational entity shall, within XX days, transfer to the executive board for retirement a quantity of CERs at least equal to the excess CERs issued for that project.

If deficiencies in a validation report for a CDM project activity constitute a reason for the suspension or withdrawal of the designation of a designated operational entity, the project activity must be re-registered using a different designated operational entity. If any excess CERs had been issued for such a project activity, the designated operational entity whose designation has been suspended or withdrawn shall, within XX days, transfer to the executive board for retirement a quantity of CERs at least equal to the excess CERs issued for that project.

Any decision regarding suspension or withdrawal of designated operational entities that adversely affects registered project activities shall be taken only after the affected project participants have had the possibility of a hearing.]

27. A designated operational entity must be reaccredited every x years.

D. Designated operational entities

28. Designated operational entities shall be responsible for carrying out functions referred to in sections D and G-J and in the appendices to the annex on modalities and procedures as well as in other relevant decisions of the COP/MOP [and the executive board].

29. A designated operational entity shall:

(a) Be accountable to the COP/MOP through the executive board;

(b) Validate proposed CDM project activities;

(c) Verify and certify anthropogenic emission reductions by sources [and enhanced anthropogenic removals by sinks];

(d) Comply with modalities and procedures specified in applicable decisions of the COP/MOP [and the executive board];

(e) Comply with applicable laws of the Parties hosting CDM project activities that it validates, verifies or certifies;

(f) Demonstrate that it, and its subcontractors, have no real or perceived conflict of interest with the participants of the CDM project activities which it has been selected to validate, monitor, verify or certify;

(g) [Perform only one of the following functions for a given CDM project activity: validation, [, verification or certification][or verification and certification];]

(h) Maintain a public list of all CDM project activities which it has validated, verified and/or certified;

(i) Submit an annual activity report to the [accreditation body].

E. Participation

(Note: This section may have linkages with decision --/CP.6 establishing procedures and mechanisms on compliance.)

30. Participation in a CDM project activity is voluntary.

31. A Party not included in Annex I may benefit from CDM project activities if it:

(a) Has ratified the Protocol;

(b) [[Is in compliance][Has not been found to be in non-compliance] with its commitments under Article 12 of the Convention [taking into account Article 4.3 of the Convention];]

(c) [[Is in compliance][Has not been found to be in non-compliance] [with the rules and guidelines established for the CDM and relevant provisions of the Protocol][taking into account Article 4, paragraphs 3, 4, 5 and 7 of the Convention];]

(d) [Is bound by procedures and mechanisms on compliance adopted by the COP/MOP][and has not been excluded from participation in the CDM according to its procedures and mechanisms;]

(e) [Complies with the provisions on registries as defined in [...]]

32. A Party included in Annex I may [acquire CERs] [use CERs to contribute to compliance with part of its quantified emission limitation and reduction commitments] under the provisions of Article 3 if [it][the Compliance Committee has decided that the Party has demonstrated that it has met the following requirements]:

(a) Has ratified the Protocol;

(b) [[Is bound by the procedures and mechanisms on compliance adopted by the COP/MOP and] has not been excluded from participation in the CDM [according to its procedures and mechanisms [, in particular provisions regarding Article 2, paragraphs 1 and 3, Article 3, paragraphs 2 and 14, and Articles 6, 11, 12 and 17]][in accordance with the provisions under the Protocol]];]

(c) Option 1: [[Is in compliance][Has not been found to be in non-compliance] with its commitments under Articles [3,]5 and 7 of the Kyoto Protocol [and Article 12 of the Convention] [in relation to emission inventories and accounting for assigned amount];]

Option 2: Has in place[, by the time a report is submitted pursuant to paragraph 33 (a) and thereafter,] a national system for the estimation of anthropogenic emissions by sources [and enhanced anthropogenic removals by sinks] [of all greenhouse gases not controlled by the Montreal Protocol,] in accordance with Article 5.1 and the requirements in the guidelines decided thereunder;

(d) [[Is in compliance][Has not been found to be in non-compliance] with the rules and guidelines established for the CDM and relevant provisions of the Protocol;]

(e) Option 1: [Complies with the provisions on registries as defined in [...];]

Option 2: Has in place[, by the time a report is submitted pursuant to paragraph 33 (a) and thereafter,] a computerized national registry to account for and track [all changes in its assigned amount] [ERUs, CERs and [AAUs] [PAAs] transferred or acquired under the provisions in Article 3, paragraphs 10, 11 and 12], in accordance with Article 7.4 and the requirements in the guidelines decided thereunder;

(f) [Has established[, by the time a report is submitted pursuant to paragraph 33 (a),] its [initial] assigned amount[, in accordance with Article 7.4 and the requirements in the guidelines decided thereunder];]

(g) [Has submitted, in the report described in paragraph 33 (a), one annual inventory for the relevant recent year, [of anthropogenic emissions by sources [and enhanced anthropogenic removals by sinks] of greenhouse gases not controlled by the Montreal Protocol] in accordance with the provisions of Article[s 5.2 and] 7.1 and the requirements in the guidelines decided thereunder, other than those relating to the deadline for the first submission;]

(h) Option 1: Has subsequently submitted for each year following the submission of the report described in paragraph 33 (a), annual reports [information on its assigned amount], in accordance with Article 7.1 and the requirements in the guidelines decided thereunder, and annual inventories, in accordance with Article[s 5.2 and] 7.1 and the requirements in the guidelines decided thereunder;]

Option 2: Has submitted the last available annual greenhouse gas inventory and greenhouse gas inventory report in accordance with Article 5 and the requirements set out in decision -/CP.6;

(i) [Has achieved sufficient emission reductions through domestic [action] [policies and measures][in accordance with appendix X];

(j) [Has submitted the last required information on net changes in greenhouse gas emissions by sources and removals by sinks resulting from direct human induced activities in conformity with the requirements under Article 3.3 and 3.4, in accordance with the relevant decisions by the COP and the COP/MOP;]

(k) [Has submitted the last required [all] periodic national communication[s] in accordance with Article 7.2 and in the guidelines decided thereunder.]]]

33. A Party included in Annex I may:

(a) [Use CERs to contribute to compliance with part of its quantified emission limitation and reduction commitments under Article 3 after [XX[1]] months have elapsed since the submission of a report to the secretariat documenting that it meets the requirements in paragraph 32 above, unless the Compliance Committee has found that it has not met one or more of such requirements;]

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[1] A specified time period sufficient to allow the Article 8 expert review teams and the enforcement branch of the Compliance Committee a reasonable opportunity to identify and rule upon any problems.

(Note: Clarification is required as to whether the report referred to in this subparagraph is additional to the report requested for the establishment of the initial[4] assigned amount as defined in section III (modalities for accounting for assigned amount under Article 7.4) of the draft guidelines for the preparation of the information required under Article 7 of the Kyoto Protocol (Annex II of documents FCCC/SBSTA/2000/10/Add.3 and FCCC/SBSTA/2000/13.))

(b) [Use CERs to contribute to compliance with part of its quantified emission limitation and reduction commitments under Article 3 at an earlier date if the enforcement branch of the Compliance Committee has notified the secretariat that it is not proceeding with any question of implementation relating to the requirements in paragraph 32 above;]

(c) Continue to [participate][acquire CERs][use CERs], unless and until the Compliance Committee has found that it has not met [one or more of the requirements in paragraph 32 above][the requirements of Article 5 and 7 and the requirements set out in decisions -/CP.6 and D/CP.6]. If the Compliance Committee has found that a Party does not meet one or more requirements above, the Party may participate only if and when the Compliance Committee finds that the Party meets such requirements and therefore reinstates its eligibility to participate.]

34. [A private or public entity[, including international financial entities and multilateral funds,] may participate in CDM project activities with the approval of the [Parties involved][Party in which it is operating or legally resident, if the Party meets the requirements in paragraphs 31, 32 and 33, as applicable].]

35. Option 1: The participation of private and/or public entities in CDM project activities does not affect the commitments of Parties included in Annex I under the Protocol and the Convention. [Any costs, risks or liabilities that have not been expressly accepted by the Party not included in Annex I at the time of approval of the CDM project activity shall be assumed to be the responsibility of the participating Party included in Annex I. [In cases where no Party included in Annex I or entity [resident in] [of] such a Party is involved, the host Party assumes total responsibility for the project.]

Option 2: A Party included in Annex I that authorizes participation of private and/or public entities [under the CDM, including in activities mentioned in Article 12, paragraph 3 (a), and in the acquisition of certified emission reductions] [in CDM project activities] shall remain responsible for the fulfilment of its obligations under the Protocol and the Convention and shall ensure that such participation is consistent with this annex on modalities and procedures.

36. A Party may develop national rules or guidelines, consistent with rules and guidelines established for the CDM, for the participation in CDM project activities of that Party and of entities resident in or operating under the jurisdiction of that Party. The Party shall publish such national rules and guidelines.

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[4] *The word "initial" in documents FCCC/SBSTA/2000/10/Add.3 and FCCC/SBSTA/2000/13 is bracketed.*

37. [A Party not included in Annex I participating in the CDM shall, taking into account the common but differentiated responsibilities of Parties and their specific national and regional development priorities, objectives and circumstances, without introducing any new commitments for those Parties and taking account of Articles 4, paragraphs 3, 5 and 7 of the Convention:

(a) Designate a national authority for the CDM to approve CDM project activities;

(b) Provide a formal letter of approval from the designated national authority for the CDM to project participants to demonstrate host Party approval of each [validated] CDM project activity it has approved, including its confirmation [that][how] the project activity shall assist the host Party in achieving sustainable development;

(c) [Maintain a publicly available up-to-date list of private and public entities it approves for participation in the CDM.]]

38. [A Party included in Annex I participating in the CDM shall:

(a) Designate a national authority for the CDM to approve CDM project activities;

(b) Provide a formal letter of approval from the designated national authority for the CDM to project participants to demonstrate its approval of each [validated] CDM project activity it has approved;

(c) [Maintain a publicly accessible up-to-date list of private and public entities which it approves for participation in the CDM.]]

39. Option 1: [Issues of non-compliance not covered by the procedures and mechanisms on compliance specified in decision -/CP.6[5], including eligibility of a Party, shall be resolved by the executive board of the CDM. Questions with regard to compliance with the provisions of Article 12 and/or the rules and guidelines established for the CDM, including eligibility requirements in relation to a Party or an entity, may be raised by a Party, by an operational entity, by the review process under Article 8 in relation to Parties included in Annex I or by other means.]

Option 2: The executive board shall address issues relating to Article 12 which are not referred to the Compliance Committee, in accordance with provisions contained in decision [...] and the annex on modalities and procedures.

(Note: Should there be a paragraph suggesting consequences in cases where a private or public entity knowingly provided wrong information? What are the consequences for existing CDM project activities in cases of loss of eligibility of a Party not included in Annex I? Can CERs be issued in relation to a CDM project activity where a finding of non-compliance has been made?)

40. [Where a question of non-compliance has been raised, CERs from affected CDM project activities may continue to be issued [, transferred] and acquired, provided that any such CERs are not used by a Party included in Annex I to meet part of its commitments under Article 3.]

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[5] The decision establishing procedures and mechanisms on compliance pursuant to Article 18.

F. Financing

41. Option 1: CDM project activities may be developed, financed and implemented, individually or jointly, by Parties included [and/or not included] in Annex I and private or public entities approved by Parties for participation in the CDM, including international financial entities and multilateral funds.

Option 2: [Funding for CDM project activities shall be provided by the participating Party included in Annex I to the participating Party not included in Annex I on the basis of the CERs to be acquired from the project activities as [sole] return for the participating Party included in Annex I for meeting part of its quantified emission limitation and reduction commitments under Article 3 of the Protocol. Parties included in Annex I may involve private and/or public entities in such funding. CDM projects shall be financed by Annex I project participants through bilateral agreement between Annex I and non-Annex I project participants.]

G. [Validation][Registration][Registration process]

(Note: Some Parties suggest merging the function of registration with that of validation while suggesting a two-step approach where first the designated operational entities determine whether a proposed project activity shall be registered, and, second, the executive board registers the project activity unless a review of the determination is requested. Those Parties also suggest that [new][first-of-a-kind] methodologies shall be approved by [the executive board][COP/MOP] in accordance with paragraphs 3(g), 47 and 48.)

42. Validation is the process of independent evaluation of a project activity by a designated operational entity against the requirements of the CDM as set out in the decision [...] and the annex on modalities and procedures, on the basis of a project design document.

43. Registration is the formal acceptance by the executive board of a validated project as a CDM project activity. Registration is a prerequisite for the verification, certification and issuance of CERs related to that project activity.

44. The designated operational entity selected by project participants, and under a contractual arrangement with them, to validate a project activity, shall [review the project design document and any supporting documentation to] confirm that the following requirements are met:

(a) [The project has been approved by each Party involved in accordance with paragraph 37, subparagraph (b) and paragraph 38, subparagraph (b);]

(b) The project participants are eligible to participate in CDM project activities;

(c) [The project activity is eligible under the CDM;]

(d) [Comments by stakeholders have been considered [in accordance with relevant national requirements];]

(e) [The project activity has undergone an environmental impact assessment[, including social impacts, taking into account criteria for environmentally safe and sound technologies as delineated in Agenda 21, Chapter 34,] in accordance with existing rules,

standards and legislation of the host Party[or, in the absence of these, appropriate international guidelines and good practice];]

(f) [The project activity satisfies the threshold criteria set out in paragraph 58];

(g) The baseline complies either with:

(i) Methodologies approved by the [executive board][COP/MOP];or

(ii) Modalities and procedures for a [new][first-of-a-kind] methodology;

(h) [For projects designed to enhance anthropogenic removals by sinks, the project ensures that CERs reflect real, measurable and long-term benefits in enhancement of removals and/or avoidance of emissions of greenhouse gases by specifying:

(i) A proposed period of time during which carbon would remain sequestered; and

(ii) Modalities to address the possibility that some or all carbon sequestered through the project is released before the time specified in subparagraph (i) has elapsed;] [6]

(i) The project activity is expected to result in anthropogenic emissions by sources, [or an enhancement of anthropogenic removals by sinks] that are additional to any that would occur in the absence of the proposed project activity;

(j) Provisions for monitoring, verification and reporting of relevant project performance indicators are in accordance with provisions set out in decision [....] and the annex on modalities and procedures;

(k) The CDM project activity uses a crediting period that satisfies the requirements specified in paragraph 78;

(l) The project conforms to all other requirements for CDM project activities in decision [....] and the annex on modalities and procedures.

45. The designated operational entity will review the information provided to determine whether it is sufficient to enable a decision to be made regarding whether to register the project activity. If the information is not sufficient, the designated operational entity may request further information from the project participants, as appropriate, and, where appropriate, provide recommendations for the modification of the methodologies used.

46. If the designated operational entity determines that the project activity uses a methodology that has not been previously approved, it must forward the methodology to the executive board for review in accordance with the provisions of paragraphs 47 and 48.

47. [The executive board shall [expeditiously][within x months] review a proposed new methodology prior to the registration of a project activity intending to use such methodology. Whenever the executive board [approves][recommends to approve to the COP/MOP] such a

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[6] Proposal 4 of FCCC/SB/2000/ MISC.4/Add.1/Rev.1 may be further considered in this respect.

methodology, it shall [make it publicly available] [include the methodology in the [UNFCCC CDM reference manual]] [along with any relevant guidance related to its application to other projects with similar characteristics]].

48. Methodologies that have been approved by the [executive board][COP/MOP] may be used by project participants without further executive board review, provided that the designated operational entity determines that the methodology is appropriate to the circumstances of the proposed project activity.

49. In accordance with provisions on confidentiality contained in paragraph 3(m), the designated operational entities shall make publicly available the project design document. [It shall receive comments from Parties[, stakeholders] [and UNFCCC accredited] non-governmental organizations on elements relating to [sustainable development,]environmental additionality as defined in paragraph[s] [57][58 and 59] [and the baseline methodology] [for [30] [60] days from the date the project design document was made publicly available.]

50. After the deadline for receipt of comments, the designated operational entity will make a determination as to whether, on the basis of the information provided and taking into account the comments received, the project activity should be validated. If requested to do so by a Party or by a member of the executive board, the operational entity shall make available all comments received.

51. Option 1: The designated operational entity shall provide the project participants with a recommendation that the project be registered as a CDM project activity if it determines that the project design, as documented, conforms with the requirements for validation.

Option 2: If the designated operational entity determines that the proposed project activity is valid, it shall submit to the executive board its validation determination on the CDM project activities, along with the project design document, a summary of comments received and a description of how it has taken due account of those comments. It shall make this validation report publicly available through hard copy and electronic means.

52. The designated operational entity shall inform project participants if it determines that the project design, as documented, does not fulfil the requirements for validation, explaining the reasons for non-acceptance.

53. [Project participants shall submit a validated CDM project activity to the designated national authority of each Party involved for approval.]

(Note: Subparagraph 44 (a) provides for government approval prior to validation. If paragraph 53 is retained, there would also be a post-validation government approval.)

54. CDM project activities shall:

(a) Be considered by the host Party to assist the host Party in achieving sustainable development;

(b) Be based on the best available safe and sound long-term environmental option, taking into account local and national needs and priorities;

(c) Lead to the transfer of [state-of-the-art][appropriate,] environmentally safe and sound technology in addition to that required under other provisions of the Convention and the Protocol;

(d) Lead to reductions of emissions of greenhouse gases in sector/source categories listed in Annex A to the Protocol. The methodologies used for estimating anthropogenic emissions by source of all greenhouse gases not controlled by the Montreal Protocol are those accepted by the IPCC and agreed upon by the COP at its third session (decision 2/CP.3) or by the COP/MOP at its first session in accordance with Article 5, paragraph 2;

(e) [Give priority to renewable energy, ocean thermal energy conversion, activities to promote anaerobic respiration, energy efficiency technologies that are at the top end of efficiency practice anywhere, and reducing emissions from [the transportation sector] [all sectors][, without discriminating against one of them];]

(f) [Not [support][include] the use of nuclear power;]

(g) [Not include activities enhancing anthropogenic or non-anthropogenic removals by sinks of greenhouse gases [until the outcome of methodological work on Article 3, paragraphs 3 and 4, is reached and the COP/MOP decides on the eligibility of such project activities in the CDM][that [go against] other multilateral environmental agreements [or against the principles agreed in Agenda 21 and the United Nations Commission on Sustainable Development]];]

(h) [Include project activities for land-use, land-use change and forestry, including afforestation and reforestation[[and prevention of deforestation,][conservation and anthropogenic enhancements by sinks,]] [for the period between the year 2000 and the beginning of the first commitment period,] if they comply with the conditions established in decision -/CP.6 on the implementation of Article 3, paragraphs 3 [and 4] of the Kyoto Protocol;]

(i) [Give priority to carbon sequestration[for the combating of desertification, the conservation of biodiversity and watersheds, and the improvement of land management];]

(j) [Not include types of project activities excluded by a decision of the COP/MOP.]

55. [A project activity may be eligible for registration as a CDM project activity if the resultant reductions in anthropogenic emissions by sources [and/or enhancements of anthropogenic removals by sinks] commenced after [1 January 2000][11 December 1997] [or the date of the host Party's ratification of the Protocol, whichever is later,] or was reported as an activity implemented jointly under the pilot phase. [If a project activity was reported as an activity implemented jointly under the pilot phase and is registered as a CDM project activity the anthropogenic emission reductions by sources [and/or enhanced anthropogenic removals by sinks] from 1 January 2000 will be eligible for retrospective verification and certification].]

56. [CDM project activities shall be project-based, carried out on a project-by-project basis and may be embedded in broader projects [which are undertaken for reasons other than climate change]. Several small-scale project activities of the same kind may be bundled so as to be subject to a single transaction without losing their own project identity with respect to requirements for validation, verification and certification.]

Option A (para 57)

57. A CDM project activity is additional if:

(a) Emissions are reduced below [or anthropogenic removals by sinks are increased beyond] those that would have occurred in the absence of the registered CDM project activity ([emissions additionality.][climate change mitigation additionality.]);

(b) [[Public funding for [the acquisition of CERs resulting from] CDM project activities from Parties included in Annex I are additional to the financial obligations [in Articles 4, paragraph 3, and 11 of the Convention] of Parties included in Annex II to the Convention within the framework of the financial mechanism as well as to current official development assistance [flows][targets] (financial additionality);]

(c) [The value of the CERs significantly improves the commercial viability of the project. Projects which are commercially viable without CERs can not qualify as CDM projects (investment additionality);]

(d) [The environmentally safe and sound technology used for the project is the best available and practicable for the circumstances of the host Party and additional to Article 4, paragraph 5 (technology additionality).]

Option B (paras. 58 to 60)

58. Reductions of anthropogenic emissions by sources and [enhanced anthropogenic removals by sinks] resulting from a CDM project activity shall be considered additional for the purposes of Article 12, paragraph 5 (c), if the CDM project activity meets the threshold criteria established under paragraph 59 and the emission reductions exceed the approved baseline for the CDM project activity.

(Note: The following two paragraphs establish a new threshold criterion requiring better-than-average environmental performance for CDM projects, which would replace criteria relating to technology and investment additionality.)

59. To be eligible as a CDM project activity, a proposed project activity must achieve a level of performance with respect to reductions in anthropogenic emissions by sources [or enhancement of anthropogenic removals by sinks] that is significantly better than average compared with recently undertaken activities or facilities within the reference scenario. This threshold criterion shall be satisfied if:

(a) The proposed project activity uses a methodology to demonstrate that it meets the threshold that has been approved by the executive board, and the designated operational entity determines that the methodology is appropriate to the circumstances of the project activity and has been properly applied; or

(b) The proposed project activity uses an alternative methodology to demonstrate that the project will achieve a level of performance with respect to reductions in anthropogenic emissions by sources [or enhancement of anthropogenic removals by sinks] that is significantly better than average, provided that the executive board approves the alternative methodology upon submission by the operational entity. Upon approval of the alternative baseline

methodology by the executive board, the designated operational entity will determine that the methodology is appropriate to the circumstances of the project activity and has been properly applied.

60. The term "reference scenario" means a set of recent and comparable activities or facilities that are defined in a manner sufficient to demonstrate what would likely have occurred in the relevant sector in the absence of the proposed project activity, taking into account any guidance provided by the executive board. The relevant geographic area for the reference scenario shall normally be defined as the host Party but, depending on the circumstances, may be defined to encompass a larger or smaller area, taking into account any guidance provided by the executive board.

61. The project participants shall explain why the CDM project activity cannot be considered as the baseline.

62. Anthropogenic reductions of emissions by sources [or enhanced anthropogenic removals by sinks] shall be considered real if the baseline takes account of variations in actual activity levels during the year and is adjusted by leakage. The validated project boundary is defined as all sources of anthropogenic emissions by sources[and/or enhanced anthropogenic removals by sinks] that are within the control of the project participants and are significant and reasonably attributable to the CDM project activity. Leakage is defined as the variation of anthropogenic emissions by sources [or enhanced anthropogenic removals by sinks] outside the validated project boundary.

63. The anthropogenic emissions by sources [or enhanced anthropogenic removals by sinks] shall be considered measurable if:

(a) The actual anthropogenic GHG emissions by sources [or actual anthropogenic removals by sinks] after the project has been implemented can be measured and monitored, in accordance with provisions in decision [...] and the annex on modalities and procedures;

(b) The anthropogenic GHG emissions by sources [or anthropogenic removals by sinks] baseline is calculated ex post using the registered methodology.

64. The baseline for a CDM project activity is the scenario describing what future anthropogenic GHG emissions by sources [or anthropogenic removals by sinks [in accordance with decisions of the COP/MOP related to Article 3, paragraphs 3 and 4]] would be in the absence of the project, calculated using an approved or [new][first-of-a-kind] baseline methodology for the CDM project activity. The baseline may include a scenario where future anthropogenic GHG emissions by sources [or anthropogenic removals by sinks] are projected to rise above current levels, due to the specific circumstances of the host Party. A baseline shall cover emissions from sectors and sources listed in Annex A to the Protocol [, as well as deforestation,][and enhanced anthropogenic removals by sinks] and shall address all relevant greenhouse gases listed in Annex A to the Protocol.

65. [A proposed project activity must use a baseline that reasonably represents the anthropogenic emissions by sources [or anthropogenic enhancements of removals by sinks] that would occur in the absence of the proposed project activity in accordance with paragraph 67 below.]

66. [The establishment of baselines shall be guided by the principles of reliability, transparency and completeness.]

67. [A baseline shall be deemed to reasonably represent the anthropogenic emissions by sources [or anthropogenic enhancements of removals by sinks] that would occur in the absence of the proposed project activity only if it is derived using:

(a) A baseline methodology that has been approved by the [COP/MOP][executive board] and the designated operational entity determines that the methodology is appropriate to the circumstances of the project activity and has been properly applied; or

(b) An alternative baseline methodology, provided that the [COP/MOP][executive board] approves the methodology upon submission by the designated operational entity and following approval of the alternative methodology by the [COP/MOP][executive board], the designated operational entity determines that the methodology is appropriate to the circumstances of the project activity and has been properly applied.]

68. [Project participants may choose the baseline methodology for the proposed project activity but must explain in a transparent manner the choice of approaches, assumptions, methodologies, parameters, data sources and key factors for the determination of the project baseline and additionality in the project design document to facilitate project validation and replication.]

69. [[Baselines shall be established in accordance with provisions contained in decision [...] and the annex on modalities and procedures for the use of approved methodologies or approval of [new][first-of-a-kind]. Types of baselines considered for the CDM shall include][The [COP/MOP][executive board] shall approve]:

(a) A project-specific baseline, if it establishes the anthropogenic emissions by sources[and/or enhanced anthropogenic removals by sinks] for a specific reference case that represents what would occur in the absence of the project activity [which is unique to the project]. The methodology to calculate the baseline may also be applied to other projects if appropriate;

(b) A [multi-project] [standardized] baseline for a given project type and specific geographic area, if it uses [a performance standard][general methodology].]

70. [[When approving]The baseline for a project activity to reduce emissions by an existing source [should], taking into account the observed trends, [represent][the [COP/MOP][executive board] shall consider] the lowest of:

(a) Existing actual emissions prior to the project;

(b) The most reasonable economic technology for the activity;

(c) Better-than-average current industry practice in the host country or an appropriate region;

(d) The [average] [top X per cent] for such an existing source in Parties included in Annex [I] [II].]

71. [[When approving]The baseline for a project activity to reduce emissions by a new source [should], taking into account the observed trends, [represent][the [COP/MOP][executive board] shall consider] the lowest of:

(a) The most reasonable economic technology for such a new source;

(b) Better-than-average current industry practice in the host country or an appropriate region for new sources;

(c) The [average][top X per cent] for such a new source in Parties included in Annex [I] [II].]

72. [A baseline for a land-use, land-use change and forestry project to reduce anthropogenic emissions by sources and/or enhance anthropogenic removals by sinks shall address:

(a) Project duration;

(b) Type of baseline used (i.e. project-by-project, multi-project);

(c) Baseline methodology adopted (approved or [new][first-of-a-kind]);

(d) Permanence[7];

(e) Leakage;

(f) [Environmental][Climate change mitigation] additionality;

(g) The liability procedures in the case that the emissions are not effectively reduced [or the removals are not kept for a sufficient amount of time].]

73. [A [standardized] [multi-project] baseline [must be set to][shall be set conservatively to] preserve environmental integrity. It may be set to]...

[Option 1: the average of emissions for such project types in Parties included in Annex [I][II].]

Option 2: reasonable better-than-average current industry practice [and trends] for existing or new sources [as well as for anthropogenic removals by sinks], as appropriate. If the analysis delivers a range of values, the lowest emission rate shall be set as the multi-project baseline.

Option 3: [[x] per cent lower than a comparable, validated, project-specific baseline].]

74. [The executive board shall give priority to developing [standardized] [multi-project] baselines for projects below a specified size whose estimated emission reductions are less than AAA tonnes per year or BBB tonnes over their crediting period.]

75. [Any project whose estimated emission reductions exceed CCC tonnes per year or DDD tonnes over its crediting period shall use a project-specific baseline.]

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[7] Proposal 4 of FCCC/SB/2000/ MISC.4/Add.1/Rev.1 may be further considered in this respect.

76. [Relevant national policies and circumstances, including, *inter alia*, sectoral reform initiatives, local fuel availability, [trends in land-use and land-use change,] power sector expansion plans, and the economic situation in the project sector, shall be considered in the development of a project baseline.]

77. [The baseline shall ensure that projects do not benefit from national policies [which do not contribute to the ultimate goal of the Convention] [and practices which encourage activities that lead to greater levels of anthropogenic emissions of greenhouse gases not controlled by the Montreal Protocol than would otherwise occur].]

(Note: Parties may wish to consider whether and how existing national legislation and regulation should be reflected in the determination of baselines.)

78. Option 1: Project participants must select a crediting period for a proposed project activity using one of the following alternative approaches:

(a) A single crediting period, after which the project activity is not eligible to further accrue certified emission reductions. The baseline remains fixed throughout the crediting period. The crediting period is defined as the shorter of:

(i) The expected operational life of the project; or

(ii) Fifteen years [in the case of emission reduction project activities], [and [X] years in the case of project activities involving land-use change and forestry]; or

(b) A crediting period of [five] years may be renewable by the project participant, provided that the designated operational entity determines that the project activity continues to satisfy [the threshold and] baseline criteria based on updated data.

Option 2: The crediting period for a project is the period of validity of the validated baseline defined as the shortest of (a) the operational life of the project; (b) [five] [x] years; and (c) the period proposed by the project participants. The crediting period of a project may be extended by a validated review of the baseline. Factors in baseline determination which are subject to review at the end of the crediting period should be identified at the outset.

79. Once a baseline methodology for a CDM project activity has been registered, it shall remain in effect for the crediting period for that project activity. If the operational life of a CDM project activity exceeds the crediting period of that CDM project activity, a new baseline shall be validated at the end of each crediting period upon request of project participants.

80. [An approved project-specific or [standardized] [multi-project] baseline methodology may be revised at any time by a decision of the [executive board][COP/MOP]. Any revision shall only be relevant to baselines registered subsequent to the date of revision and shall not affect existing registered projects activities during their crediting periods.]

81. [Project participants] [Designated operational entities] shall submit to the executive board a request for registration including the validated project design document and the [recommendation] [determination] by the designated operational entity, including a summary of

the comments received and how the designated operational entity has taken due account of these comments.

82. The registration by the executive board shall be deemed final [30] [60] days after the date of receipt by the executive board of the request for registration, unless a Party involved in the project activity, or at least [x] members of the executive board, or at least [y] Parties, or at least [xx] stakeholders, or at least [xx] UNFCCC accredited NGOs request a review of the proposed CDM project activity. Such a request shall be made in accordance with the following provisions:

(a) Requests for reviews [may relate to any aspect of the project design document] [shall be limited to issues associated with the applicability of [the threshold,]baseline methodology to the project, the adequacy of the monitoring plan, other issues relating to additionality and leakage [and in the case of sequestration projects, adequacy of methodologies pursuant to paragraph 44 (h)]];

(b) Upon receipt of a request for review in accordance with this paragraph, the executive board [at its next meeting] shall [decide whether the request has merit. If the executive board decides the request lacks merit it shall register the project at that meeting. If the executive board decides that the request has merit it shall] perform a review in accordance with this paragraph and decide whether the proposed registration should be approved;

(c) The executive board shall complete its review no later than the [second] meeting following its receipt of a request for review;

(d) The executive board shall inform the project participants of its decision, and make its decision and the reasons for it public.

83. A proposed project activity that is not accepted may be reconsidered for validation and subsequent registration. After appropriate revisions, the revised project activity, to be registered as a CDM project activity, has to meet all the procedures and requirements for validation and registration, including those related to public comments.

H. Monitoring

84. Project participants shall include, as part of the project design document, a monitoring plan that shall provide for:

(a) The collection and archiving of all relevant data necessary for estimating or measuring anthropogenic emissions by sources [or anthropogenic removals by sinks] of greenhouse gases occurring within the project boundary during the crediting lifetime;

(b) The collection and archiving of all relevant data necessary for determining baseline anthropogenic emissions by sources [and/or enhanced anthropogenic removals by sinks] within the project boundary during the crediting lifetime;

(c) An identification of all potential sources of enhanced anthropogenic greenhouse gas emissions by sources [and enhanced anthropogenic removals by sinks] outside the project boundary[and within the relevant geographic area in the reference scenario][that are significant and] reasonably attributable to the project activity;

(d) The collection and archiving of all relevant data necessary to estimate all measurable changes of anthropogenic greenhouse gas emissions by sources [and enhanced anthropogenic removals by sinks] identified in subparagraph (c) above;

(e) The collection and archiving of all relevant data necessary to monitor other relevant impacts of the project [such as environmental, economic, social and cultural impacts];

(f) Quality assurance and control procedures;

(g) Procedures for periodic calculation of reductions of anthropogenic emissions by sources [and of enhanced anthropogenic removals by sinks] of greenhouse gases by the proposed CDM project activity;

(h) Documentation of all steps involved in the calculations referred to in subparagraph (g) above.

85. A monitoring plan shall be based on a monitoring methodology that:

(a) Has been previously approved by the executive board, provided that the designated operational entity determines that the methodology is appropriate to the circumstances of the proposed project activity and has been properly applied;

(b) Is an alternative methodology proposed for application to a particular project activity, provided that:

(i) The designated operational entity determines that the methodology is appropriate to the circumstances of the project activity and has been properly applied;

(ii) The executive board approves the methodology upon registration because the methodology is considered sufficiently rigorous to provide an accurate and reasonably certain calculation of anthropogenic emissions by sources [or anthropogenic removals by sinks] or, where the methodology is not sufficiently rigorous, provide a conservative estimate of anthropogenic emissions by sources [or anthropogenic removals by sinks] that gives reasonable assurance that anthropogenic emissions by sources are not underestimated and anthropogenic removals by sinks are not overestimated;

(c) Reflects good monitoring practice, i.e. performance at least equivalent to the most cost-effective commercially applied monitoring methodologies appropriate to the circumstances.

86. Project participants shall ensure that the monitoring plan contained in the registered project design document is implemented.

87. [A third party may provide assistance to the project participants in implementing the registered monitoring plan. Any such third party shall operate under the responsibility of the project participants and shall be independent of the designated operational entities involved in the project registration, verification or certification.]

88. Revisions to the monitoring plan require justification by project participants, shall be validated by a designated operational entity and shall be approved by the executive board.

89. The implementation of the registered monitoring plan, and its approved revisions as applicable, shall be a condition for verification, certification and the issuance of CERs.

I. Verification

90. Verification is the periodic independent review and ex post determination by a designated operational entity of the monitored reductions in anthropogenic emissions by sources and [of the monitored enhanced anthropogenic removals by sinks] that have occurred as a result of a registered project activity during the verification period.

91. The designated operational entity contracted by the project participants performing the verification shall:

(a) Determine whether the project documentation provided is in accordance with the requirements of the registered project design document and relevant provisions of decision [...] and the annex on modalities and procedures;

(b) Conduct on-site inspections, as appropriate, which may comprise, *inter alia*, a review of performance records, interviews with project participants and stakeholders, collection of measurements, observation of established practices and testing of the accuracy of monitoring equipment;

(c) If appropriate, use additional data from other sources;

(d) Review monitoring results and determine the reduction in anthropogenic emissions by sources [and/or enhancements of anthropogenic removals by sinks] based on the data and information used in (a) and obtained through (b) and/or (c), as appropriate, using calculation procedures consistent with those contained in the registered project design documents;

(e) Verify that the monitoring methodologies for estimation of reduced anthropogenic emissions by sources [or enhanced anthropogenic removals by sinks] have been applied correctly and their documentation is complete and transparent;

(f) Identify any concerns related to conformity of the actual project and its operation with the registered project design document. The designated operational entity shall inform the project participants of any such concerns. Project participants may address the concerns and supply any additional information;

(g) Recommend to the project participants appropriate changes to the monitoring methodology;

(h) Provide a verification report to the project participants, the Parties involved and the executive board. The report shall be made publicly available.

92. The emission reduction by a CDM project activity during a given year is the ex post calculation of baseline emissions less the actual anthropogenic emissions by sources less leakage [or actual anthropogenic removals by sinks less baseline removals by sinks less leakage] [and/or carbon stock] due to the CDM project activity during that year.

J. Certification

(Note: Some Parties suggest merging the function of certification with that of verification.)

93. Certification is the written assurance by a designated operational entity [that has verified the project] contracted by the project participants that, during a specific time period, a project activity achieved its anthropogenic emission reductions by sources [and/or enhanced anthropogenic removals by sinks][and other performance indicators, as verified].

94. The designated operational entity contracted by the project participants shall, based on a verification report [by another designated operational entity], certify in writing that, during the specific time period, the project activity achieved reductions of anthropogenic emissions by sources [and/or enhancement of anthropogenic removals by sinks] as verified. It shall inform the project participants [and the executive board] of its [decision] [recommendation] in writing immediately upon completion of the certification process and make it publicly available.

95. Emission reductions from a registered baseline resulting from a registered project activity shall be certified, after they have occurred[, only if all Parties [and private or public entities] involved were eligible to participate in the CDM during the period covered by the verification report].

K. Issuance of certified emission reductions

96. The CERs are [not] transferable.

97. The CERs are [not] fungible with assigned amount for Parties included in Annex I [and shall not result in the creation or bestowal of any right, title or entitlement].

98. [The issuance by the executive board shall be deemed final [30] [60] days after the date of receipt by the executive board of the request for issuance, unless a Party involved in the project activity, or at least [x] members of the executive board, or at least [y] Parties, or at least [xx] stakeholders, or at least [xx] UNFCCC accredited NGOs request a review of the proposed CDM project activity. Such a request shall be made in accordance with the following provisions:

(a) Requests for reviews shall be limited to issues associated with the verification and certification of CERs including issues of fraud, malfeasance or incompetence of the designated operational entities involved;

(b) Upon receipt of a request for review in accordance with this paragraph, the executive board [at its next meeting] shall [decide whether the request has merit. If the executive board decides the request lacks merit it shall authorize issuance at that meeting. If the executive board decides that the request has merit it shall] perform a review in accordance with this paragraph and decide whether the proposed issuance should be approved;

(c) The executive board shall complete its review no later than its [second] meeting following its receipt of a request for review.]

99. The executive board shall inform the project participants of its decision, and make its decision and the reasons for it public.

100. Upon receipt of a certification report from a designated operational entity confirming the certification of a quantity of CERs based on a CDM project activity, the system administrator working under the authority of the executive board shall:

(a) Assign each CER a unique serial number;

(b) Assess, in accordance with appendix D, and collect the share of proceeds to cover administrative costs and to assist in meeting costs of adaptation in accordance with Article 12.8 and transfer them to the appropriate accounts;

(c) Transfer [remaining] CERs to the registry accounts of project participants, as specified by the distribution agreement approved by the Parties involved.

[Appendix X (to the annex on modalities and procedures to decision [...] on a clean development mechanism)

"Part of"/Supplementarity

1. Option 1: Parties included in Annex I shall not primarily use extraterritorial means to fulfil their obligations under Article 3. Quantitative or qualitative rules and guidelines shall be developed in the context of policies and measures under Article 2 and demonstrable progress under Article 3, paragraph 2, that would be subject to the Protocol's reporting, in-depth review and procedures and mechanisms on compliance by which the right of a Party to access mechanisms pursuant to Articles 6, 12 and 17 could be suspended in circumstances where it has failed to demonstrate that its domestic efforts form the primary means of achieving its quantified emission limitation and reduction commitment.

Option 2: Net acquisitions by a Party included in Annex I for all three mechanisms pursuant to Articles 6, 12 and 17 together must not exceed the higher of the following alternatives:

(a) 5 per cent of: $\frac{\text{its base year emissions multiplied by 5 plus its assigned amount}}{2}$

(where 'base year emissions' may be replaced by 'average annual emissions in the base period, as provided for in Article 3, paragraph 5');

(b) 50 per cent of: the difference between its annual actual emissions in any year of the period from 1994 to 2002, multiplied by 5, and its assigned amount.

However, the ceiling on net acquisitions can be increased to the extent that a Party included in Annex I achieves emission reductions larger than the relevant ceiling in the commitment period through domestic action undertaken after 1993, if demonstrated by the Party in a verifiable manner and subject to the expert review process to be developed under Article 8.

If a Party is a member of an Article 4 agreement to fulfil commitments jointly, the assigned amount is the assigned amount allocated to the Party under that agreement. Other wise, it is the assigned amount for the Party as calculated in accordance with Article 3, paragraph 7.

Option 3: CDM project activities shall be supplemental to domestic actions by developed country Parties to meet part of their quantified emission limitation and reduction commitments. Developed country Parties' participation in CDM project activities should be contingent on [satisfaction of prescribed domestic effort in] fulfilment of commitments under Article 3. A quantified ceiling on the emissions limited and reduced through the mechanisms pursuant to Articles 6, 12 and 17 shall be initially set at 30 per cent of the effort required to meet the commitments of a Party included in Annex I. This ceiling may be reviewed periodically by the COP/MOP.

Option 4: The overall use of CERs by Parties included in Annex I to contribute to compliance under Article 3 should be limited to 25 per cent of the aggregated assigned amount.

[Issues related to Article 4]

2. [Any limitations on the transfer or acquisition of CERs under Article 12 shall apply to the allocation of emission levels under Article 4.]

3. [Any limitations on net transfers or acquisitions of CERs under Article 12 shall apply to each individual Party operating under Article 4.]

4. [Reallocations under Article 4 shall count against the limitations referred to in paragraph 1 above.]]

Appendix A (to the annex on modalities and procedures to decision [...] on a clean development mechanism)

Standards and procedures for the accreditation of operational entities

(Note: Further consideration of standards beyond those contained in this appendix may be required.)

1. The accreditation standards shall address, *inter alia*,:

(a) Good expertise on certification procedures;

(b) Implementation of a system to demonstrate the application of certification procedures;

(c) A system for the control of all documentation relating to validation, verification and certification;

(d) A professional code of practice, appeal and complaints procedures;

(e) Relevant expertise and competence of a designated operational entity;

(f) Independence and absence of conflict of interest of a designated operational entity;

(g) [Insurance coverage of a designated operational entity].

2. An operational entity shall meet the following organizational requirements:

(a) Be a legal entity (either a domestic legal entity or an international organization) and provide documentation of this status to the [accreditation body];

(b) Employ a sufficient number of persons having the necessary competence to perform [validation][registration], verification and certification functions relating to the type, range and volume of work performed, under a responsible senior executive;

(c) Have the financial stability and resources required for its activities;

(d) Have sufficient arrangements to cover legal and financial liabilities arising from its activities;

(e) Have documented internal procedures for carrying out its functions including, among others, procedures for the allocation of responsibility within the organization and for handling complaints; these procedures shall be made publicly available;

(f) Have the necessary expertise to carry out the functions specified in this and relevant decisions by the [COP] [COP/MOP], in particular have sufficient knowledge and understanding of:

(i) The modalities and procedures and guidelines for the operation of the CDM, relevant decisions of the COP and COP/MOP, [and guidance issued by the executive board];

(ii) Environmental issues relevant to [validation][registration], verification and certification of CDM projects;

(iii) The technical aspects of CDM activity relevant to environmental issues, including expertise in the setting of baselines and monitoring of emissions and other environmental impacts;

(iv) Relevant environmental auditing requirements and methodologies;

(v) [Sustainable development criteria and implementation];

(vi) Methodologies for accounting of anthropogenic GHG emissions by sources [and/or enhanced anthropogenic removals by sinks];

(vii) ...

(g) Have a management structure that has overall responsibility for performance and implementation of the entity's functions, including management reviews, and decisions on [validation][registration], verification and certification. The applicant operational entity shall make available to the [accreditation body]:

(i) The names, qualifications, experience and terms of reference of the senior executive, board members, senior officers and other personnel;

(ii) A structure chart showing lines of authority, responsibility and allocation of functions stemming from the senior executive;

(iii) Its policy and procedures for conducting management reviews;

(iv) Administrative procedures including documents control;

(v) Its policy and procedures for the recruitment and training of operational entity personnel, for ensuring their competence for validation, verification and certification functions, and for monitoring their performance;

(vi) Its procedures for handling complaints, appeals and disputes.

(h) Not have any judicial process pending for malpractice, fraud and/or other activity incompatible with its functions as a designated operational entity.

3. An applicant operational entity shall meet the following operational requirements:

(a) Work in a credible, independent, non-discriminatory and transparent manner [complying with applicable national law] meeting in particular the following requirements:

(i) An applicant operational entity shall have a documented structure, which safeguards impartiality, including provisions to ensure impartiality of its operations. [This structure shall enable the meaningful participation of all stakeholders significantly concerned in the development of the CDM project];

(ii) [If it is part of a larger organization, and where parts of that organization are, or may become, involved in the identification, development or financing of any CDM project activity, the applicant operational entity shall:

- Make a declaration to the [accreditation body] of all the organization's actual and potential CDM activities, indicating which part of the organization is involved and in which particular CDM activities;

- Clearly define to the [accreditation body] the links with other parts of the organization, demonstrating that no conflicts of interest exist;

- Demonstrate to the [accreditation body] that no actual or potential conflict of interest exists between its functions as an operational entity and any other functions that it may have, and shall demonstrate how business is managed to minimize any identified risk to impartiality. The demonstration shall cover all potential sources of conflict of interest, whether they arise from within the operational entity or from the activities of related bodies;

- Demonstrate to the [accreditation body] that it, together with its senior executive and staff, is not involved in any commercial, financial and other processes which might influence its judgement or endanger trust in its independence of judgement and integrity in relation to its activities, and that it complies with any rules applicable in this respect;

- [Demonstrate to the [accreditation body] that it has policies and procedures for [the resolution of complaints, appeals and disputes received from project participants or other parties about the handling of its activities][and for][] receipt of comments in accordance with provisions contained in the annex on modalities and procedures];]]

(b) Have adequate arrangements to safeguard confidentiality of the information obtained from CDM project participants [in accordance with provisions contained in the annex on modalities and procedures];

(c) In cases where the operational entity subcontracts work on [validation] [registration], verification or certification to an external body or person, the operational entity shall:

(i) Take full responsibility for such subcontracted work and maintain its responsibility for granting or withdrawing validation/certification;

(ii) Draw up a properly documented agreement covering the arrangements;

(iii) Ensure that the subcontracted body or person is competent and complies with applicable provisions of decision [...] and the annex on modalities and procedures, in particular regarding confidentiality and conflict of interest;

(iv) Report its use of the subcontractor to the [accreditation body].

Appendix B (to the annex on modalities and procedures to decision [...] on a clean development mechanism)

[UNFCCC clean development mechanism reference manual]

1. [The executive board shall maintain and make available in electronic and printed forms [a UNFCCC CDM reference manual] consisting of decisions of the COP/MOP[and the executive board] relating to, *inter alia*,:

(a) Baseline methodologies:

(i) COP/MOP requirements for [new][first-of-a-kind] baseline methodologies;

(ii) Approved baseline methodologies;

(b) Eligibility criteria:

(i) Additionality
[Approved thresholds];

(ii) [Types of projects];

(iii) Other;

(c) Monitoring:

(i) COP/MOP requirements for [new][first-of-a-kind] monitoring methodologies;

(ii) Approved monitoring methodologies;

(d) Project design document (see also the annex to this appendix B);

(e) [Requirements for an [accreditation body];]

(f) Requirements for designated operational entities.

Annex to appendix B ([UNFCCC CDM reference manual])

Project design document

1. A project activity shall be described in detail in a project design document and shall include the following:

(a) A letter from the designated national authority for the CDM in accordance with paragraph 37, subparagraph (b) and paragraph 38, subparagraph (b) of the annex on modalities and procedures;];

(b) A short, objective, non-technical summary of the purpose and context of the project;

(c) A description of the project:

(i) Project purpose;

(ii) [Policy and institutional context:

- Reference to the policy standards of the host country for the sectors involved;

- Reference to the host country's legal framework and its degree of implementation;

- The social actors involved in the design and execution of projects;]

(iii) Technical description of the project and a description of the transfer of technology, including viability of technological choices;

(iv) Information regarding project location and its region;

(v) Brief description of the project boundaries (geo-referenced);

(vi) Key parameters affecting future developments relevant to the baseline as well as the CDM project activity;

(vii) [Socio-economic aspects;]

(viii) [Influence of the project on the socio-economic situation of the host Party and/or in the specific region in which the project is implemented;

- Socio-economic impact of the project beyond its project boundaries, in the influence zone;

- Additional effects (indirect) of the execution and functioning of the project;]

(d) [Contribution to sustainable development[, as defined in Agenda 21 and the relevant multilateral environmental agreements];]

(e) Proposed baseline methodology:

(i) Description of the baseline calculation methodology;

(ii) Justification that the proposed baseline methodology is appropriate;

(iii) Justification of proposed crediting period;

(iv) The estimated operational life of the project;

(v) Any other information required to make fully transparent the application of the approved [standardized] [multi-project] baseline to the specific project;

(vi) Description of key parameters and assumptions used in the baseline estimate;

(vii) [Project participants shall describe the extent to which national policies (especially distortionary policies such as energy subsidies or incentives to forest clearing) influence the determination of the baseline.];

(viii) Data sources to be used to calculate the baseline anthropogenic emissions by sources [and/or anthropogenic removals by sinks], such as historical data on anthropogenic emissions by sources [and/or anthropogenic removals by sinks], variables and parameters used;

(ix) Historical anthropogenic emissions by sources [and/or anthropogenic removals by sinks] for the activity, as appropriate;

(x) Projection of baseline emissions and emission reductions by year over the operational life of the project;

(xi) Uncertainties (in a quantitative manner, as applicable):

- Data;
- Assumptions;
- Key factors;
- Other;

(xii) How the baseline methodology addresses potential leakage at the national and sub-national levels;

(xiii) In the case of a [new][first-of-a-kind] baseline methodology, strengths and weaknesses of the proposed baseline methodology;

(xiv) Other environmental impacts related to the project;

(f) [The executive summary of the environmental impact assessment, including social impacts as required under paragraph 44 (e) of the annex on modalities and procedures;]

(g) [[For land-use, land-use change and forestry CDM project activities]:

(i) A proposed period of time during which carbon would remain sequestered;

(ii) Modalities to address the possibility that some or all carbon sequestered through the project is released before the time specified in subparagraph (i) has elapsed;

(iii) Modalities to address potential reversibility of carbon sequestration;]

(h) Economic and financial information:

(i) Sources of financing and evidence that the funding is additional;

(ii) [Financial and economic analysis (internal rate of return, reserve funds, financial flow)];

(iii) [Estimates of the costs of implementation and maintenance of the project over its projected lifetime];]

(i) Additionality: Explanation of how the project activity meets the CDM additionality requirements;

(j) Other information:

(i) Comments, observations and/or suggestions by local stakeholders and description of their involvement;

(ii) Contribution to other environmental agreements (e.g. biological diversity, desertification), as applicable;

(k) Monitoring plan:

(i) Relevant project performance indicators both within and outside the project boundary;

(ii) Data needed for the project performance indicators and assessment of data quality;

(iii) Methodologies to be used for data collection and monitoring;

(iv) Assessment of the accuracy, comparability, completeness and validity of the proposed monitoring methodology;

(v) Quality assurance and quality control provisions for the monitoring methodology, recording and reporting;

(vi) Description of how monitored data will be used to calculate the emissions reduced [or removed];

(l) Proposed formula for the calculation of the emissions reduced [or removed]:

(i) Anthropogenic emissions by sources [and enhancements of anthropogenic removals] that are significant and reasonably attributable to the project activity within the project boundary;

(ii) Anthropogenic emissions by sources [and enhancements of anthropogenic removals] that are [significant and] reasonably attributable to the project activity outside the project boundary and within the geographic area of the reference scenario;

(iii) The total anthropogenic emissions by sources [and enhancements of anthropogenic removals] from subparagraphs (l) (i) and (ii) above;

(iv) Comparison of the total anthropogenic emissions by sources [and enhancements of anthropogenic removals] attributable to the project activity calculated using the approved methodology within the geographic area of the reference scenario to the appropriate baseline;

(v) Any additional factor required by the executive board to account for changes in anthropogenic emissions by sources [and enhancements of anthropogenic removals] that are [significant and] reasonably attributable to the project activity but outside the geographic area of the reference scenario;

(vi) Emissions reduced during the specified period;

(m) References.

[Appendix C (to the annex on modalities and procedures to decision [...] on a clean development mechanism)

Reporting by Parties

(Note: See Part I in document FCCC/SB/2000/10/Add.1. Some Parties propose that reporting by Parties should be addressed under the guidelines for the preparation of the information required under Article 7 of the Kyoto Protocol (FCCC/SBSTA/2000/10/Add.3 and FCCC/SBSTA/2000/13). These draft guidelines already contain some of the provisions on reporting contained in appendix C to Part I. Parties may wish to focus their attention on those provisions in that appendix that are relevant to the mechanisms.)

(Note: The provisions in paragraph 1 of document FCCC/SBSTA/2000/10/Add.1, part I, are now included in the draft text on guidelines for the preparation of the information required under Article 7(FCCC/SBSTA/2000/10/Add.3 and FCCC/SBSTA/2000/13).)]

Appendix D (to the annex on modalities and procedures to decision [...] on a clean development mechanism)

Determination and allocation of the share of proceeds

1. The share of proceeds is defined as ...

Option 1:[x per cent] of the [number][value]of CERs issued for a project;

Option 2: [x per cent] of the differential of the costs incurred by the Party included in Annex I in reducing greenhouse gas emissions through a project activity in a Party not included in Annex I and of the projected costs that would have been incurred by the Party included in Annex I if the greenhouse gas emission reduction activity had taken place in the Party included in Annex I which is funding the project activity;

2. No more than [10][y] per cent of the amount of the share of proceeds shall be used to cover administrative expenses and shall be transferred to an account maintained for this purpose by the secretariat of the executive board. [20 per cent][The remaining amount] of the share of proceeds shall be devoted to assisting developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation and shall be transferred to an account maintained for this purpose by the adaptation fund established by the COP/MOP. [Thirty per cent shall be provided to the host Party of the project activity to assist it in achieving its sustainable development objectives.]

3. The COP/MOP may decide to revise the determination and/or allocation of the share of proceeds contained in this appendix.

Appendix E (to the annex on modalities and procedures to decision [...] on a clean development mechanism)

Decision X/CP.6 on an adaptation fund

The Conference of the Parties,

Bearing in mind the provisions of Article 4.1 (e) and 4.4 of the Convention,

Noting Article 10, subparagraph (b) of the Kyoto Protocol,

Recalling its decisions 11/CP.1 and 2/CP.4,

1. *Decides* to establish an adaptation fund[8] to distribute financial assistance to adaptation projects and measures from the share of proceeds from project activities under [Article 6[9] and] the clean development mechanism [and from transactions under Article 17] to be used to assist developing country Parties[10] that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation;

2. *Decides* that the adaptation fund shall be managed by [an existing institution] [the entity entrusted with the operation of the financial mechanism of the Convention] under the guidance of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol [and

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[8] [An adaptation fund shall be established to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change, in particular the least developed countries and small island developing States amongst them, and/or to the impact of the implementation of response measures, under Articles 6 and 17, to meet the costs of adaptation.]

[9] "Article" means an article of the Kyoto Protocol, unless otherwise indicated.

[10] "Party" means a Party to the Kyoto Protocol, unless otherwise indicated.

utilizing disbursement procedures and timetables adopted by the [executive board][Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its first session]];

3. *Decides* that the entity entrusted with the operation of the adaptation fund referred to in paragraph 2 shall submit an annual audited report of all assets and liabilities of the adaptation fund for consideration by the [Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol][executive board];

4. *Decides* that Parties not included in Annex I shall identify adaptation projects for funding, [following a process of adaptation project identification] and submit requests for financial assistance to the adaptation fund;

5. [*Decides* that funding for adaptation projects under the adaptation fund shall be consistent with ongoing work on adaptation under the Convention.] Parties not included in Annex I, in particular the least developed countries and the small island developing States amongst them, shall be assisted with capacity-building at all levels in order to be able to carry out such activities;

6. *Decides* that the institution managing the adaptation fund shall convert any CERs [ERUs and AAUs] into [currency][monetary values] through a competitive public process such as an auction;

7. *Decides* that adaptation projects and measures receiving financial assistance from the adaptation fund shall:

(a) Be country-driven, taking into account the common necessities of vulnerable countries within a given region, and the complementarities required by projects in the same region;

(b) [Be in conformity with national strategies and priorities for the sustainable development of the Party concerned and address the specific vulnerabilities identified in the Party's national communications or its national action plans;]

(c) [Be consistent with relevant international agreements and internationally agreed programmes of action for sustainable development;]

(d) [Have been subject to a social and environmental impact assessment[in accordance with existing rules, standards and legislation of the host Party];]

(e) Be formulated taking account of decision 11/CP.1, paragraph 1 (d) (i) and (ii) (FCCC/CP/1995/7/Add.1);

(f) [Be implemented in a cost-effective manner;]

(g) Be subject to monitoring and reporting.

8. [*Decides* that adaptation projects aiming at maintaining the carbon stocked in forests may receive financial assistance from the adaptation fund. These projects shall be given high priority and shall be guided by information from national communications of Parties not included in Annex I, and be limited to the following activities:

(a) Conservation of natural forests;

(b) Protection of endangered protected areas.]

9. *Decides* that adaptation projects and measures receiving financial assistance from the adaptation fund [shall be selected in accordance with, *inter alia*, a vulnerability index, [to be established and maintained by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol,][to be developed by the United Nations] which] shall prioritize [[cost-effective] adaptation projects and measures] [Parties not included in Annex I which are particularly vulnerable to the adverse effects of climate change[, in particular the least developed country Parties and the small island developing States amongst them]], [giving added priority to those Parties not included in Annex I which, in addition to qualifying as particularly vulnerable to the adverse effects of climate change, have generated certified emission reductions under the clean development mechanism].

(Note: Further elaboration may be required regarding the management and disbursement of the adaptation fund and further action by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol.)]

[Annex to decision [B/CP.6]

TERMS OF REFERENCE FOR THE ESTABLISHMENT OF GUIDELINES ON BASELINES

[The Intergovernmental Panel on Climate Change] [Experts selected from the roster of experts[, taking into account considerations of regional balance,] and guided by the [Subsidiary Body for Scientific and Technological Advice][executive board]], in preparing guidelines for baseline setting for clean development mechanism projects, shall be guided *inter alia* by the following terms of reference:

1. The objective of the guidelines on baseline setting is to provide guidance for the establishment of methodologies for baseline setting for project-based activities to:

(a) Harmonize, further elaborate, extend and make consistent all baseline methodologies, as approved by the executive board and contained in all baseline-related sections of the annex on modalities and procedures for a clean development fund;

(b) Enable project developers to develop baselines in an objective, transparent and reliable manner;

(c) Provide guidance for designated operational entities to check baselines in a consistent and transparent manner.

2. Guidance should be provided in the following areas:

(a) Definition of mutually exclusive project categories (e.g. based on sector, technology and geographic area), which show common methodological characteristics for baseline setting;

(b) Methodologies which are most likely to deliver the most accurate baseline. For the project categories identified, methodological guidance should cover project-specific and multi-project baselines, including guidance on the level of aggregation, taking into account data availability, geographic areas and data availability;

(c) Decision trees and other methodological tools, where appropriate, to guide the methodological choice in order to achieve the most realistic and most likely scenario, taking into account the dynamics of future developments;

(d) Possible level of standardization of the methodologies, while maintaining good accuracy. Standardized parameters should be compiled wherever possible and appropriate. Standardization should be conservative in order to prevent any overestimation of emission reductions accruing from projects under a highly standardized baseline;

(e) Determination of project boundaries, including greenhouse gases to be included in the project boundaries. [Relevance of leakage and recommendations for the setting of appropriate project boundaries and indicators allowing for the ex post evaluation of the level of leakage;]

(f) Crediting lifetime of a project;

(g) Choice of data (international, default, national) and data collection including indicators to be measured, advice on estimation and treatment of uncertainties;

(h) [Incorporation of relevant national policies and specific national or regional circumstances, including, *inter alia*, sectoral reform initiatives, local fuel availability, power sector expansion plans, and the economic situation in the project sector.]]

[Annex to decision [B/CP.6]

MEMBERS OF THE [INTERIM] EXECUTIVE BOARD

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